Grant Boyken
California Secure Choice Retirement Savings Program
915 Capitol Mall, Room 110
Sacramento, CA 95814
Attn: Secure Choice RFI #13-01

Dear Grant,

On behalf of The Online 401(k), thank you for including us in your Request for Information on behalf of the California Secure Choice Retirement Savings Program.

Since 1999, our Company has had the singular purpose of delivering Workplace Savings Programs, such as 401(k)s and Payroll Deduction IRAs, into the hands of Small Businesses and consumers who do not have one. After 14 years, we've done exactly that for more than 7,000 Small Businesses, representing over 75,000 savers and over $1.25BB in retirement savings.

We understand the improved savings rates that necessarily result from automatic, employer-facilitated payroll deductions. We are also acutely aware of the huge number of California Workers who lack Workplace Retirement Savings. It is a societal problem of great significance, and without an easy solution.

Therefore, it is with great satisfaction and pride that we welcome our home state of California's vision and leadership in solving this problem.

We look forward to illustrating the ways in which the State, working in conjunction with eager Private Enterprise, can help more Californians have a dignified retirement.

Sincerely,

Chad Parks
Founder & CEO
The Online 401(k)

Small-Business Workplace Savings Summary
October 2013

The Retirement Crisis

Two of the three legs of the classic metaphor on American retirement—pension and Social Security—are seriously in doubt. The Defined Benefit Plan is no longer as prominent as it was in years past, and the ability for the Federal Government to fund the current level of Social Security Benefits indefinitely, is questionable and severely at risk.

Both the Government and the public are increasingly aware of these threats, bringing Personal Retirement Savings to the center stage. The Workplace Retirement Plan—with the advantage of regular and automatic paycheck deferrals—eliminates saving hurdles, inherent in human nature.

One of the criticisms of the 401(k) Industry has been limited coverage, specifically in the Small Business Market.[1] Federal and State Governments are therefore examining mandates that would address the following statistics:

Source: GAO analysis of labor and IRS data.

The Online 401(k) is one of a few providers whose primary focus has been on solving this problem of coverage. Providing Small Businesses and the millions of Americans employed by them with instant, low-cost, and low-risk access to Workplace Retirement Savings, The Online 401(k) also extends its reach by providing our Business Partners with a Service and Administrative Platform for their customer base.

The Online 401(k)'s Solution Summary

The Online 401(k) is a Workplace Retirement Plans provider. Offering both 401(k)s and Payroll Deduction IRAs, built solely for the Small Business of 1–100 Employees, The Online 401(k) delivers web-marketed, web-delivered applications designed specifically for that audience alone. Products are serviced primarily via the Cloud service model, with elegant design, emotional appeal, and minimal barriers-to-purchase inherent in products designed for larger businesses.

As a natural extension, The Online 401(k) maintains extensive domain expertise in the latest methods of service delivery for today's generations of savvy web and mobile users, employing a ***less-is-more*** approach to product design and decision-making. This results in higher retention rates, as well as a consistent uncomplicated experience for the price-conscious, time-constrained consumer.

Finally, The Online 401(k) was founded on, and has maintained a fixed-fee revenue model—we do not charge asset-based fees for the TPA/Recordkeeping work that we do. This guarantees simplicity and efficiency, as well as a true dedication to that underserved 1–100 employee audience.

The Online 401(k) now counts over 7,000 small business customers and more than $1.25BB in retirement savings.

1 Source: The Government Accountability Office Study "Retirement Security. Challenges and Prospects for Employees of Small Business." July, 2013

Plan Structure

1. *What type of plan structure would you recommend to best meet the statutory goals and objectives for the Program, which include simplicity, ease of administration for employers, preservation of principal and portability of benefits (e.g., a pooled fund with guaranteed interest credited to individual accounts on a regular basis that utilizes a gain and loss reserve? Individually held IRA-type accounts with a variety of funds from which participants could choose? Something else altogether?)*

The Online 401(k) Solution

Safe Harbor Status provided by the IRA Structure

DOL Interpretive Bulletin 99-1[1] defines the terms under which employers must operate Payroll Deduction IRA's in order to avoid operating a Pension Plan, and thus be granted Safe Harbor from ERISA. The current IRA structure is necessary for that purpose.

Portability

The Employee Account must be portable to any other IRA. However, the Employee should have no requirement to move it upon termination of employment, or, if the Employee changes jobs to another participating Employer, the Employee can simply change the funding source to the new employer to continue the benefits of payroll deduction.

Web Delivery Backstopped with Paper

- Employers should be encouraged—perhaps defaulted—to deliver census and payroll info on-line, and to make deposits via ACH. Dissemination of information to Employees (enrollment, account info, statements) should be delivered via the web and electronic communications such as e-mail, mobile application pushes, and text.
- Paper processes (i.e., enrollment via fax, statements, deposits via checks) could be provided and distributed via the EDD.

Omnibus IRA

Our experience with existing Payroll Deduction IRA products leads us to recommend an Omnibus IRA approach—one account of pooled Employee assets, for the purpose of recordkeeping, not investment management, with recordkeeping technology tracking individual Employee accounts, balances, and records. Employees will still have the ability to self-direct their investments from the list of approved/recommended investments by the Board and/or its vendors.

Investments

We recognize the benefits of preservation of principal, and believe a cash account should be available. However, we also believe that the "one size fits all, guaranteed interest" investment approach is needlessly broad and restrictive. Technology now allows easy implementation of customized investment strategies, suited to individual circumstance, which allow participants to take risk suited to their personal situation. Professional and independent third parties offer managed, low-cost, indexed portfolios tailored to individual participant time-horizon and risk (for example, there is no need to default or force a 25-year-old Employee into a guaranteed rate of return.). This

1 Source: US Department of Labor Interpretive Bulletin 99-1; Payroll deduction Programs for Individual Retirement Accounts. (06.18.1999)

allows those with short time frames and low tolerance to avoid risk, while allowing those with long time frames and an appetite for risk to assume it, along with the returns that follow.

We propose that Participants be opted into a default account of "cash" until the lapse of the 90-day withdrawal period, at which point they would be phased into a model portfolio of low-cost, passively managed ETFs according to age.

We suggest the decumulation stage be annuitized, but not necessarily by an annuity. Annuities carry costs, and are only as good as the creditworthiness of the insurer, which ultimately invites liability on the State.

Investment Options

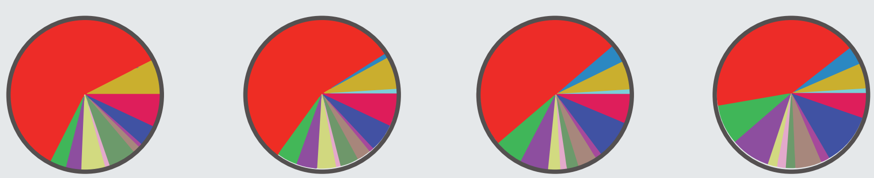
2. ***What investments would you recommend to best meet the goals and objectives of the Program, both in terms of the types of funds and underlying assets, and the style of management (i.e., active vs. passive)?***

First and foremost it should be noted that The Online 401(k) is investment agnostic. We do not sell, advise on, or broker investment solutions. However, our extensive experience in this space allows us to have an informed opinion on the subject of investments, and investments in retirement savings plans.

It should also be noted that investing is only one part of a successful retirement savings plan. Coverage, proper savings rates for the individual, accumulation, and lifetime management of their savings are also factors to successful outcomes. For some individuals, investing in the most conservative investment available (i.e., cash or money market) should not be considered a failure. While Wall Street will say you must invest to progress, the fable of the tortoise and the hare comes to mind. There have been many examples of the conservative investor winning in the end.

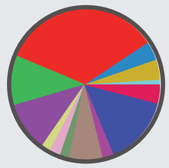
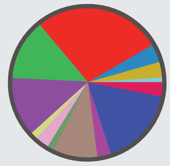
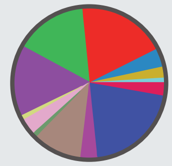
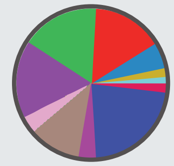
Our experience selling Workplace Savings Plans to small businesses and consumers leads us to suggest professionally managed Target Date Portfolios of Exchange Traded Funds. Acknowledging the divisive nature of the active/passive debate, we suggest passive, as it minimizes style drift, lowers investment expense, and limits transaction costs. All else equal, investors who control costs receive better returns. We suggest ETFs for similar reasons: they are low-cost, enable "ownership of the market" and deliver perfect visibility into the underlying assets owned.

THE ONLINE 401(k) ALLOCATION MODELS

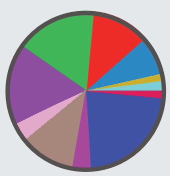
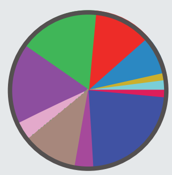
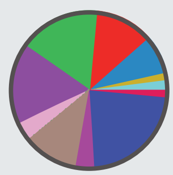


	Retirement Income Model Through 12/31/1942	2010 Retirement Model 1943 through 1947	2015 Retirement Model 1948 through 1952	2020 Retiremetn Model 1953 through 1957
Schwab Emerging Markets Equity ETF	0.00%	1.00%	1.00%	1.00%
Schwab Intermediate-Term US Trsy ETF	7.50%	7.00%	6.20%	5.50%
Schwab International Equity ETF	0.00%	1.00%	4.00%	4.00%
Schwab US Aggregate Bond ETF	60.00%	56.00%	50.00%	42.20%
Schwab US Large-Cap Grwoth ETF	3.50%	4.50%	6.10%	8.60%
Schwab US Large Cap Value ETF	3.30%	4.50%	6.10%	8.60%
Schwab U.S. TIPS ETF	5.00%	4.00%	2.50%	2.00%
Schwab US REIT ETF	1.00%	1.00%	1.40%	1.90%
iShares Barclays Short Treasure Bond	5.90%	4.00%	2.50%	2.00%
Vanguard Mid-Cap ETF	1.50%	3.00%	4.10%	5.70%
Vanguard Small Cap ETF	0.80%	1.00%	1.40%	1.90%
Vanguard Total Stock Market ETF	4.50%	6.00%	8.40%	11.30%
Barclays High Yield Bond	7.00%	7.00%	6.30%	5.30%

THE ONLINE 401(k) ALLOCATION MODELS

	2025 Retirement Model 1958 through 1962	2030 Retirement Model 1963 through 1967	2035 Retirement Model 1968 through 1972	2040 Retirement Model 1973 through 1977
Schwab Emerging Markets Equity ETF	1.00%	1.00%	1.00%	1.40%
Schwab Intermediate-Term US Trsy ETF	4.30%	3.40%	2.40%	1.90%
Schwab International Equity ETF	4.00%	4.00%	4.00%	5.60%
Schwab US Aggregate Bond ETF	34.40%	27.70%	19.20%	15.20%
Schwab US Large-Cap Grwoth ETF	10.80%	13.10%	15.50%	16.70%
Schwab US Large Cap Value ETF	10.80%	12.60%	15.10%	16.70%
Schwab U.S. TIPS ETF	2.00%	1.50%	1.00%	0.00%
Schwab US REIT ETF	2.40%	2.90%	3.50%	3.70%
iShares Barclays Short Treasure Bond	2.00%	1.50%	1.00%	0.00%
Vanguard Mid-Cap ETF	7.20%	9.30%	10.40%	11.10%
Vanguard Small Cap ETF	2.40%	2.90%	3.50%	3.70%
Vanguard Total Stock Market ETF	14.70%	17.10%	20.60%	22.10%
Barclays High Yield Bond	4.00%	3.00%	2.80%	1.90%

	2045 Retirement Model 1978 through 1982	2050 Retirement Model 1983 through 1987	2055 Retirement Model 1988 through current
Schwab Emerging Markets Equity ETF	2.00%	2.00%	2.00%
Schwab Intermediate-Term US Trsy ETF	1.50%	1.50%	1.50%
Schwab International Equity ETF	8.00%	8.00%	8.00%
Schwab US Aggregate Bond ETF	12.00%	12.00%	12.00%
Schwab US Large-Cap Grwoth ETF	16.80%	16.80%	16.80%
Schwab US Large Cap Value ETF	16.80%	16.80%	16.80%
Schwab U.S. TIPS ETF	0.00%	0.00%	0.00%
Schwab US REIT ETF	3.80%	3.80%	3.80%
iShares Barclays Short Treasure Bond	0.00%	0.00%	0.00%
Vanguard Mid-Cap ETF	11.30%	11.30%	11.30%
Vanguard Small Cap ETF	3.80%	3.80%	3.80%
Vanguard Total Stock Market ETF	22.50%	22.50%	22.50%
Barclays High Yield Bond	1.50%	1.50%	1.50%

Investment cost is extremely important. The time value of money, aka "compounding effect," where even a 1% difference in net fees exists, can add up to literally hundreds of thousands of dollars in fees over a saver's lifetime.

Cumulative Results of 401(k) Fees After 30 Years

ENDING BALANCE

The Online 401(k)	Option B	Option C
$445,756	*$384,489*	*$273,081*
@0.25% FEES	@0.96% FEES	@2.50% FEES

Assumptions // Save $300 a month // Net return is gross return minus fees // Gross return is 5% - compounded monthly // Beginning balance - $50,000

We would suggest, and currently provide to our clients, up to 10 professionally managed model portfolios. Employees complete a simple Risk Tolerance Questionnaire, and are automatically invested in the appropriate portfolio. The overall all-inclusive asset fee for these portfolios averages only 25 basis points, or 0.25%. Compare that to a well known, nationally recognized insurance company who is offering investments in their workplace savings plans for 250 basis points, or 2.5%, ten times the cost.

For those determined to avoid all Market Risk, Preservation of Principal should be offered via a Cash Option, such as Treasuries, or FDIC insured product. Employee balances could be annuitized (though not with an annuity) as Employees enter Retirement.

3. *If you recommend more than one investment option, what would you recommend as the "default," or automatic, option that would be chosen for participants who do not make an affirmative decision?*

We would recommend a Conservative Portfolio as the default; after the 90-day withdrawal period, unless the Employee has indicated otherwise, will be phased into the market and into a model according to their age, in QDIA fashion. We suggest "Target Date Model Portfolios" rather than "Target Date Mutual Funds" for a few reasons:

- Target Date Funds are managed to time horizon, rather than a time horizon and risk tolerance.
- Target Date Funds lack a common standard of measure, making benchmarking difficult.
- Target Dates have opaque pricing that has been a criticism of the fund-of-funds target date industry.

Our Target Date Model Portfolios of ETFs carry neither issue. Because these are portfolios, not actual funds, the management of them is in the best interest of the Employee, whereas in the case of funds, the funds managers are always chasing return since their compensation and the ability to attract assets are dependent on that.

This is one factor that led to the blow up of Target Date Funds in late 2008.

4. *Would you recommend including any insured interest or insured income products? Why or why not? What are the advantages and disadvantages of these products in terms of performance, risks, cost and transparency?*

In addition to model portfolios, we suggest a feature that allows for annuitization at retirement, a mechanism easily accomplished by most record-keepers utilizing current mortality tables, and other government data, but not necessarily an annuity.

With an annuity, the program is tied to the credit worthiness of the insurer. We feel that unnecessarily exposes California to PBGC-type liability. Shifting the responsibility for long term retirement success into the hands of a few insurance companies, while attractive on the surface for its perceived value, masks the real risk of default by one or more of these insurance companies who may make wrong investment decisions going into a period of very uncertain economic and market conditions. Should failure occur, it is very likely that the beneficiaries of these annuities will be looking to the State and or Federal Government, i.e., the tax payers, for relief and assistance in one form or another.

When one considers the demographic shifts that are occurring, the fact that 10,000 baby boomers a day are turning 65 for the next 17 years, (some 74 million in total), and that modern investing methods have taught them to seek more conservative investments as they near retirement, we see several things happening:

- They will shift their investments from equities to fixed income. This will create less demand for stocks, thus de-stabilizing stock prices, while at the same time increasing demand for bonds (fixed income), which will drive prices up and yields down. In an already historic low interest rate environment, this will keep yields low for many years, potentially a decade or more. Japan began to see this happen in the early 1990's and still suffers from that today.
- The assets that Baby Boomers have saved will likely be hoarded for fear of outliving their money, and to pay for unknown future health care costs, and longevity.
- This hoarding will also have a negative impact on the spend-based economy, thus lowering corporate profits, also contributing to lower stock prices.

For those who prefer to avoid all risk, and receive guaranteed payments, we suggest a cash account (Treasuries, or a FDIC-insured account.)

5. *Would you recommend the Program provides a lifelong stream of guaranteed income? If so, how would you convert retirement savings into a lifelong retirement income stream, and what investment product would you recommend to accomplish this objective?*

For those investors who choose guaranteed income, we suggest a cash account, and an annuitized income stream. In an environment where interest rates are low and will remain low, the additional fees that an insurance company would charge to absorb and manage the risk of these annuities likely would put the equivalent yield below what the investor would get outside of that product. For example, John Hancock's Money Market Fund Prospectus Summary explicitly warns investors of negative yields in money market funds due to their expense ratios exceeding earnings.[1]

6. *Would your recommendations require changes to the investment policy parameters in SB 1234? If so, what modifications to the statute would you recommended, and why?*

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1 Source: John Hancock Money Market Fund (JHMXX) Overview. 08/01/13.
"Unsubsidized yields reflect what the yields would have been without the effect of reimbursements and waivers. The following reflects the subsidized and unsubsidized yields of 09/30/13.
Class A Subsidized 0.00%, Unsubsidized -.67%
Class B Subsidized 0.00%; Class B Unsubsidized -1.42%
The adviser and its affiliates have or may voluntarily waive a portion of their fees (including, but not limited to, distribution and service (12-b1_ fees) and reimburse certain expenses to the extent necessary to assist the fund in attempting to avoid a negative yield. There is no guarantee that the fund will avoid a negative yield. Such undertaking may be amended or withdrawn at any time.

The asset categories as outlined in the IPS are sufficient for broad diversification. However, the "Primary objective" of the investment policy to "preserve the safety of principal and provide a stable and low risk rate of return" based upon our understanding of the intent of this statement, is far too limiting, and will unnecessarily limit the balances of Employees with long time horizons and higher risk-tolerance, if it is intended that all Participants in this plan be subject to the same pooled investment option.

7. *What recommendations would you make to ensure an effective risk management system is in place to monitor risk levels of the Program and ensure risks taken are prudent and properly managed?*

Benchmarking will be key. This is something the retirement industry is currently struggling with, as it has been purposefully hard to do apples-to-apples comparisons. In light of 408(b)(2) and 404(a)(5), 'Fee Disclosure' regulations recently enacted by the Department of Labor, and with forthcoming potential enhancements and refinement of these regulations, the industry may finally have a definitive source for real information that others in the industry will tabulate for proper benchmarking. The free market, under these enhancements, will then stand a chance at self-regulating the industry into reasonableness.

Benchmarking however, right now will primarily focus on fees in retirement plans. Risk management, which is a very subjective term, could follow similar methods, if standards are defined, and public reporting is required. We interpret "Risk Management" in this context to mean managing the risk of the investments being offered and/or managed on behalf of the Employees. It is our preference, as noted above, that these accounts are self-directed with assistance (through Model Portfolios), rather than an approach where there is a pool of money being managed for the masses. It is our understanding that the objective of the Board is to minimize the involvement of, risk to, and liability of The State of California, and by making the accounts self-directed, and by establishing initial and ongoing criteria that providers to the program must adhere to, risk management would be addressed through this method.

Plan Design and Features

8. *What would you recommend as the automatic or "default" contribution level for participants who do not opt out, but who do not make an affirmative decision to contribute at a rate higher than the default rate?*

We would recommend a default of 3%, as national data seems to support this level is barely noticeable to an Employee, and therefore opt-outs would be minimal.

9. *What options, if any, would you recommend for an automatic escalation feature that increases participants' contribution over time?*

We would suggest annual 1% increases to 15%, the slow and steady method, so that Participants savings' keeps up with inflation and/or increases in wages, etc.

10. *Are there any other plan design features that should be included (or eliminated) to ensure the plan meets the goals and objectives of the Program?*

We adhere to three core tenants of three tenants of Behavioral Finance for 401(k) investors, as outlined by Shlomo Bernatzi[1]: Start Saving. Increase Savings. Invest Wisely. (Auto Enroll. Auto Escalate. Low-Cost, diversified Investing.)

Other features that may want to be considered are taking into account the demographics of the people this program is aiming to help. Data shows that 45.6% of the private sector Employees who lack access to a retirement

1 Source: "Save More Tomorrow – Practical Behavioral Finance Solutions to Improve your 401(k) " Shlomo Benartzi, 2012.

plan are Latinos[1], thus implying greater success could be had if a Spanish language version of it is also supported/ required by the State and its Vendors.

As for features to eliminate, this is something The Online 401(k) has been actively discussing with policy makers and ASPPA in Washington DC. The term 'IRA' has been used frequently in part due to its familiarity and the vehicles that exist today for tax deferred savings. However, in order for programs like Secure Choice to ultimately achieve their goals, mass enrollment and ease of use are needed. Today's IRA laws are somewhat cumbersome to the process, mainly because they also fall under the Patriot Act and the 'Know Your Customer' and Anti-Money Laundering rules. This puts extra process, time and expense into the management of such programs. While surmountable, it would be preferred that there be minor changes made to these laws at the Federal level for purposes of these types of programs, eliminating some of these requirements, and piggy backing on other IRS employee identification rules.

It has been discussed with the Chief Counsel of the Senate Finance Committee and ASPPA, and we have been told there are possibilities that lawmakers could adjust the framework to accommodate these needs, making it easier for states to enact programs like Secure Choice, and for providers like The Online 401(k) to leverage our technology and experience to deliver these solutions as the best price possible.

11. *What plan design elements would you recommend to minimize pre-retirement "leakage?"*

To minimize leakage, CSC should have IRA Rules: No Loans, and no hardships.

It should offer portability to alternate IRAs upon termination of employment. And it should offer a simple change of the funding source (i.e., Maintain with the Employer or continue themselves with a direct debit from their bank account in lieu of payroll deduction) when Participants leave one Employer participating in the CSC for another Employer participating the CSC.

The Online 401(k) already has a solution in market for this scenario, and we currently call it Saver(k), a payroll deduction IRA without payroll deduction. Same system, same platform, same investments, same experience, only difference is the source of savings. We believe that once someone is in and saving, we need to make it as easy as possible to keep that good habit going. Something that today's rules, regulations, and other barriers make quite difficult in the 401(k) space.

Costs and fees

12. ***Provide an estimate of the ongoing administrative costs and fees of the investment options you recommend and identify the components of those costs and fees.***

To paint a picture of what's possible, "Starter(k)" — The Online 401(k)'s existing Payroll Deduction IRA, utilizes professionally managed portfolios of ETFs (such as those offered by Vanguard, Schwab, and iShares) covering the risk and time-horizon spectrum.

These costs are as follows:

ETFs:	.09%
3rd Party Fiduciary Management:	.10%
Transaction & Custodial Costs:	.06%
Total Asset Charges:	**.25%**

1 Source: "Research Brief – 6.3 Million Private Sector Workers in California Lack Access to a Retirement Plan on the Job." Nari Rhee, UC Berkeley Labor Center, June 2012

With the scale afforded by Secure Choice, Third-Party Management and Transaction/Custodial charges can be reduced further. Private enterprise (i.e., The Online 401(k)) is already delivering a low-cost Payroll Deduction IRA.

13. *How would you propose to assess fees to cover the costs required to start up the plan? Please identify the components of those costs and fees.*

From The Online 401(k)'s point of view, the product and it's infrastructure already exist, i.e., our "Starter(k) platform. Therefore, start-up costs are negligible, as they've already been incurred, and the solution is live in market. Should the Board and the California Legislature enact the rest of SB1234, we will incur costs to scale, but that is something that we as a company make a conscious decision to invest in, and do not think of it necessarily as a cost that would be explicitly passed onto our clients.

14. *How would you recommend the Board ensure transparency of fee and expense information available to the Board and Secure Choice participants including transparency of service providers' relationships or potential conflicts that may increase costs and/or conflict with the interests of plan participants?*

We suggest three service providers: a Record-keeper with fixed costs, a custodian, and a Third-Party Fiduciary Manager. In order to increase transparency, The Online 401(k) suggests the use of ETFs (or, other Institutional-Class Mutual Funds) that are void of "Revenue Sharing."

With three service providers printing fees on statements, and eliminating use of "Revenue Sharing" and directed brokerage, possible conflicts are obvious, and transparency is assured. Also, please reference question 7, and our thoughts on benchmarking.

The opposite of this model is where the 401(k) industry has gotten into trouble. When one provider is all three, there is inherent conflict of interest, and too many ways to play games with hiding fees. One's objectivity is compromised, and it is the Employee who ultimately pays that price.

Administrative issues

15. *What are your recommendations for identifying, and disseminating information to, eligible employers and employees (including employees of nonparticipating employers?) Consider the potential roles that could be played by California's Employment Development Department, any other state agencies or departments, and/or private sector vendors?*

We recommend—based on our experience in this space for more than 14 years—that the default Employer Communication be electronic via web, electronic communications such as e-mail, mobile application pushes, and text.

In all of our experience, there were less than a handful of times when workarounds such as a shared terminal in the workplace, or the Employer willing to take on some of the 'leg-work' did not work out. Electronic communication is much more prevalent than many are lead to believe, and the notion that all must adhere to the 'paper-based' world to accommodate a few is what causes costs to be higher than necessary, thus reducing Employees retirement savings. If paper materials are requested, it has been suggested that the Employer may receive communications disseminated via the EDD.

Alternatively, if the EDD and the State of California prefer not to have that level of involvement, The Online 401(k) through various partnerships and fulfillment partners can create a 'paper-based' version of the solution discussed. This would incur higher costs, and those costs would be passed onto the Employers and Employees of the plans where this option was chosen. The incentive clearly lies in the utilization of low-cost electronic communications, but it is not dependent on that exclusively.

16. *What are your recommendations for managing enrollment, the receipt and recordkeeping of employee payroll contributions and transactions, and managing rollovers in and out of Program accounts, including potential roles for the Employment Development Department, any other state agencies or departments, and/or private sector vendors?*

- The employer, through a dedicated plan management website, provides their Employee census information to The Online 401(k) that includes Employee e-mail and other contact information.
- Employees are sent a welcome e-mail inviting them to an Online Enrollment Meeting, and to let them know they are eligible for this new work place retirement savings plan, and that they will be auto-enrolled and invested unless they take action to opt-out.
- Employees are auto-enrolled at 3%. Employers upload payroll deferrals every pay period. Deposits are made via ACH, and invested according to Employee elections /defaults.
- Employees make change in deferral amounts online (employers notified of changes in deferral amount via e-mail, with a printable document for Employees to submit to Employers, too.)

Employees make changes to their investments via website/mobile applications.

Rollovers and Disbursals done the same way—by Employees via the website/e-mail. Or, with paper provided by the EDD, so that Employees can mail in instructions.

17. *Do you have any particular concerns about, or anticipate any significant challenges with, administering the Program? If so, how would those concerns and challenges best be addressed?*

Our 14 years of Small Business and Consumer Retirement Expertise leaves us with no private concerns. The delivery of easy-to-use, low-cost Retirement Solutions for this market is all we've done.

We do have concerns that the product would be subject to oversight of competing jurisdictions, and we would want that the "Rules of the Game" remain consistent. The assumption is that, the law, as written, will satisfy these concerns. Other concerns relate to things like messaging, communication, positioning and rollout. This proposal is a good thing for everyone, but there is also the party of 'no', that says no, no matter what the subject. We know first-hand the importance this has in our society. We know the statistics, and we know what the future will look like if this is not addressed now.

Communication is key. There is an opportunity to do this right, show the positive, use social media effectively, and the media at large. Tell the story, don't sell the program. We feel we are coming from a place of good experience when we say this, and would welcome the opportunity to help this program be incredibly successful.

We would like the Board to know that we believe in this cause so much, that we have produced a truly independent documentary, 80 minutes in length, on the subject of The Looming Retirement Crisis in America, and we call it: 'Broken Eggs' (www.brokeneggsfilm.com). We have included several copies of the film with this submission, and encourage the Board to watch the film to understand the reality we face as a nation.

broken eggs

the looming retirement crisis in America

Legal Issues

18. *What approach would you recommend to demonstrate the Program is not subject to ERISA and that the Secure Choice accounts would qualify for favorable federal income tax treatment generally granted IRAs.*

DOL Interpretive Bulletin 99-1[1] defines the terms under which employers must operate Payroll Deduction RIAs to avoid operating a "Pension Plan," and thus be granted Safe Harbor from ERISA.

These include:

- No Employer Contributions
- Employee Participation is strictly voluntary
- Employer's activities with respect to the IRA must be limited solely to permitting, without endorsement, the IRA sponsor to publicize its programs to employees, collecting contributions through payroll deductions or dues check-offs; and remitting those contributions to the IRA Sponsor.
- Employer may receive no consideration in any form, other than reasonable compensation for services actually rendered in connection with the payroll deduction or dues check-off systems.

Each of these requirements is further clarified by the Bulletin. With adherence, the Program will not be subject to ERISA, and account holders will enjoy tax-privileged status.

19. *What further statues and/or regulations would you recommend be enacted in order to strengthen the legal basis for this retirement savings program?*

The DOL has already provided the Safe Harbor, as above.

Establishing a Retirement Investments Clearinghouse

SB 1234 grants the Board the authority to establish an online clearinghouse, and to register for inclusion on the website vendors who offer employer-sponsored retirement plans and payroll deduction plans and who meet specified requirements. The cost of establishing the registration process and the online clearinghouse would be borne equally by registered vendors.

20. *Please provide your assessment as to whether there would, or would not, be sufficient interest from vendors to establish an online Retirement Investments Clearing house.*

As a company already providing Workplace Savings Plans such as 401(k)s and Payroll Deduction IRAs to the Small Business, The Online 401(k) is thrilled at the chance to participate on the Retirement Investments Clearing House. We believe many other vendors will be as enthusiastic as well.

Certain Financial Services firms will find the idea of several million, "low-balance" IRA account holders from the population-at-large, economically unattractive. They won't want them, because they lack infrastructure to make them profitable. Nor, however, will they want to cede the market to competitors. So, they will undermine feasibility of both the CSC Retirement Savings Trust, as well as the Clearinghouse, under the argument that the market has impossible economics.

There are plenty of private industry providers—including The Online 401(k)—who invalidate that argument. These are technology firms who may stand distinct from traditional 401(k) and IRA Financial Services Providers who do find the concept of several million IRA account holders attractive, despite the relative low-balances of those

1 Source: US Department of Labor. Interpretive Bulletin 99-1; Payroll deduction Programs for Individual Retirement Accounts. (06.18.1999)

account holders. These companies have technology, scale, and sell a User Experience and operational expertise at a fixed cost, rather than an Investment Product with fees predicated upon assets.

These firms are sufficient enough to fund the Retirement Investment Clearing house, until such time as the law is enacted/program is validated, at which point traditional Financial Services firms will be forced to participate in the Clearing House, or miss a chance to participate in a vast, growing market.

Also, Insurance Companies and other Investment Product Manufacturers will find this opportunity attractive, because "Pooled Investments" and the Law's proposed Investment Policy Statement of "preserving capital and providing a safe, stable, rate of return" represents as an opportunity to distribute annuities and insurance. Though they'll need vendors to administer and service the accountholders, they should be supportive of the Clearing House and Retirement Savings Trust.

21. *How would you recommend the Board establish a process to register participants and operate the clearing house effectively, efficiently, and in a manner that eliminates or reduces any liability on the part of the Board associated with registering participants and operating the clearinghouse?*

We suggest a liberal registration process, which allows for the costs of the program to be distributed across many vendors. This should include language that the vendors have paid to participate in the self-funded Clearing House, and that participation does not imply State and Board endorsement, merely an alternative to the public option.

Developing the RFP for market research, plan design, and feasibility study

22. *Do you have any recommendation for the type of firm, or firms, that would be most qualified and able to conduct the work necessary for market research feasibility and plan design study?*

There are several organizations that come to mind. In particular, ASPPA, The American Society for Pension Professional and Actuaries. If they cannot conduct it themselves, they can be a great resource for the Board.

In addition, research companies such as Cerulli & Associates out of Boston, specialize in this space, and write frequent research reports on the current state as well as trends and forecast of the industry. Other sources that The Online 401(k) has relied on in formulating our view of the market and opportunity/need include PSCA (Profit Sharing Council of America), EBRI (Employee Benefits Research Institute), GAO, US Census Bureau, SBA (Small Business Administration), the IRS, DOL, and other private sources of data.

23. *Are there firms that would be able to successfully conduct all aspects of the work, or is it likely that the Board will have to contract with more than one firm.*

That completely depends on the scope the Board has in mind. Given what we think we know, it is probably unlikely that a single source will be able to provide a complete analysis.

24. *Do you have recommendations about requirements that should be included in the RFP either in terms of the scope of the work required or qualifications of bidders?*

Vendors should have Small Business Retirement/IRA domain expertise. Working in this space requires an emphasis on design and ease-of-use best delivered via the web, with a service model that can support the simple needs of the working-class mass market, as opposed to the "Mass Affluent."

A clear understanding of the vendor's Revenue Model—whether fixed per number of account holders or predicated upon assets/investments/insurance—will reveal much about incentives. As for qualifications, we do not think it is necessary that providers be a regulated entity (i.e., FINRA or SEC), since investing is only one part of the solution and, as in our case, is outsourced to parties that are SEC registered. To prevent abuse, and 'fly-by-night' providers, perhaps the business should have a corporation or entity in California, or otherwise registered to do business in the state, and perhaps there should be some kind of minimum 'years in the business requirement'. It would not be unreasonable for E&O insurance requirements and or some sort of Bonding requirements, commiserate with current retirement plan provider rules.

Strategies for seeking and securing funding for the market research, plan design, and feasibility study

By statute, funding to complete the market and feasibility study can only be obtained from the contributions of private individuals, private nonprofit or for-profit entities, from federal sources or from any combination of such sources. The use of State funds or borrowing funds for the study is prohibited.

25. *Do you have suggestions and/or examples for the types of organizations that might be able and willing to donate significant funding, or sources of federal funds that might be available for the study?*

    Heritage / Brookings / EBRI / ASPPA / AARP

26. *Given that some organizations do not or cannot donate directly to governments, will the fact that donated funds must be placed in a State of California account make it more difficult to raise money? If so, can you suggest funding solutions or arrangements that might help to avoid this difficulty while maintain the state's independent oversight and jurisdiction over the study?*

    We have no opinion on this question.

Timeline for the market research, plan design, and feasibility study

27. *Do you have recommendations for revising the timeline in a manner that would allow for an earlier implementation date?*

    Given the scope and the complexity of the problem the state is solving, the January 2016 time line is realistic, and welcome from our standpoint.